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Appraisal Subcommittee

Federal Financial Institutions Examination Council

October 18, 2006

R. Wayne Pugh, Chairman
Louisiana Real Estate Appraisers Board
P.O. Box 14785
Baton Rouge, LA 70898-4785

Dear Mr. Pugh:

Thank you for your August 26, 2006 letter describing the Louisiana Real Estate Appraisers Board (“Board”) and the Louisiana Real Estate Commission’s (“Commission”) response to concerns identified in our June 26, 2006 field review letter. As noted in our field review letter, we will return to Louisiana for a follow-up review during the first part of 2007. We will contact you shortly regarding the date of that review. The remainder of this letter discusses your response.

- **Louisiana’s complaint investigation and resolution process does not comply with Title XI and ASC Policy Statement 10 because complaints are not investigated and resolved in a timely manner.**

In our August 26th field review letter, we stated our concern that Louisiana appeared to lack sufficient investigative resources to administer the complaint investigation and resolution process effectively. At the time of that review, 23 of the 48 open cases had been in process for more than one year. This was a significant increase since our September 2004 field review when only two of 15 cases were more than one year old. In addition, many open files showed long periods of inaction.

The ASC directed the Commission and Board to take the necessary actions to comply with Title XI and ASC Policy Statement 10 E, and to:

1. Develop and implement an action plan that will reduce the backlog of outstanding cases and manage ongoing complaint investigation and resolution in a timely manner;
2. Provide written notification to the ASC regarding the plan to be implemented; and
3. Provide a complaint log to the ASC on a quarterly basis.

In your letter, you outlined how the Board and Commission intend to eliminate the complaint backlog. First, the supervisor of the Investigative Division will hold weekly status meetings to monitor the progress of all open cases. Second, two investigators will work solely on appraisal complaints until the cases are current. Third, two other investigators will begin training in October so that, if needed, they are able to investigate appraisal complaints. And, finally, an additional investigator will be hired to help with real estate cases.

We are pleased that the Commission and Board are taking steps to allocate the resources needed to investigate and resolve real estate appraiser related complaints in a timely manner. We will review the effectiveness of these steps during our 2007 follow-up review. Finally, if you

have not yet done so, please provide us with your complaint log for the calendar quarter ending September 30, 2006.

- **Louisiana does not have a reliable means of validating continuing education claims of appraisers applying to renew certified credentials.**

As noted in our June 26th field review letter, in 2004, the Commission converted to a new electronic tracking system designed to track data provided from continuing education providers. The renewing appraiser would file an affidavit for credential renewal, and the automated system would validate the continuing education courses taken by each renewing appraiser. Based on this automated validation, the Board/Commission would determine whether to renew the appraiser's credential. We understood that the tracking system failed to work properly. The Commission, nevertheless, proceeded with the December 31, 2004, and December 31, 2005 renewal cycles and issued renewed certifications based on unsupported affidavits.

In our June 26th letter, the ASC instructed the Commission/Board to take the following steps:

1. Within 30 days of receiving that letter, prepare a listing of all certified appraisers whose credentials were renewed during the December 2004 and 2005 renewal cycles;
2. Within 90 days of receiving that letter, audit the continuing education claims of at least ten percent of the appraisers identified in step 1;
3. Identify appraisers who failed to conform to Appraiser Qualifications Board ("AQB") criteria and take appropriate disciplinary actions against those appraisers. For certified appraisers who do not currently meet AQB criteria, immediately begin the necessary steps to downgrade the appraisers to non-certified classifications. Alternatively, the Board could recall existing certifications and over stamp them with wording similar to "Not eligible to appraise federally related transactions." In this case, the appraiser's status on the National Registry would be changed from "Active" to "Inactive;"
4. For appraisers renewing on December 31, 2005, please refer to Executive Director Ben Henson's September 22, 2005 letter regarding the ramifications of Hurricane Katrina; and
5. Provide the ASC a written explanation regarding how Louisiana will conform to ASC Policy Statement 10 F. regarding validating continuing education claims.

In your response, you stated that the Board was in the process of auditing 10% of the total number of certified credentials. Appraisers had been randomly selected for audit, and the Board had sent letters to those appraisers requiring them to provide proof that they had successfully taken the necessary continuing education. You further noted that disciplinary proceedings will be initiated against certified appraisers who failed to provide such proof. However, we have not learned the results of your audit. Please provide us with a spreadsheet listing the audited appraisers, the results of the audit, whether non-complying appraisers have chosen to have their credentials downgraded to a non-certified level, and whether disciplinary actions have been initiated against those appraisers and the status of those actions.

During this process, please keep in mind that, generally, there are two reasons that appraisers fail continuing education affidavit audits. First, an appraiser took an education course that he or she believed met the State's and AQB's requirements. During the affidavit audit, the State determines that the course does not comply. In this instance, it would appear that the appraiser

acted in good faith. In such cases, it might be adequate simply to admonish the appraiser and to require that he or she take the necessary continuing education to make up the deficit.

The second situation is more troublesome. In this situation, the appraiser affirmed through the use of the affidavit that he or she had obtained the necessary education, when in fact, he or she had not. In effect, the appraiser misrepresented his or her status and, possibly, falsified a government document to obtain the credential renewal. Such a situation casts serious doubt on the appraiser's ethics. As ethical behavior is at the heart of appraisal practice, in these situations we expect the State to take much stronger disciplinary action than simply an admonishment and a requirement to make up the deficient education. Along with such disciplinary action, certified appraisers who fail to correct their deficiencies promptly will need to be removed from certified status.

We will review your continuing education audit program and resulting disciplinary actions during our follow-up visit.

- **Louisiana issued certified appraiser credentials supported by examination results that were more than two years old, which is inconsistent with AQB criteria.**

As noted in our June 26th letter, the AQB, in April 2000, issued an Interpretation to its criteria specifying that examination results were not valid for more than two years. The interpretation became effective July 1, 2000. The two-year period is measured from examination date to the credential's issuance date. Both the AQB and the ASC sent letters to all States in 2000 to make them aware of the Interpretation and the need for States to conform to the interpretation.

Louisiana amended its appraiser regulatory statute to conform to the AQB Interpretation. Because the Louisiana State Legislature only meets every two years, this amendment became effective August 1, 2001. The Board and Commission failed to comply with this change in State law.

The ASC instructed the Commission and Board to take the following steps:

1. Review its records regarding all certifications, other than reciprocal certifications, issued since August 1, 2001;
2. Within 30 days of receipt of our field review letter, determine whether the examination used to support each certified credential was passed more than 24 months prior to issuance of the credential;
3. Prepare a spreadsheet or other document that lists the name and credential number of each appraiser issued a certification since August 1, 2001, the date the appraiser's credential was issued, and the date the appraiser passed the examination;
4. Require all certified appraisers identified in step two to successfully complete the appropriate examination within 90 days from the Board's receipt of this letter;
5. Take the necessary steps to downgrade to the trainee level any certified appraiser who fails to take or pass the appropriate examination within the 90-day period. Alternatively, the Board could recall existing certifications and over stamp them with wording similar to "Not eligible to appraise federally related transactions." In this case, the appraiser's status on the National Registry would be changed from "Active" to "Inactive;" and

6. Refrain from issuing appraiser credentials that rely on outdated examination results.

In your response, you stated that, since August 1, 2001, 15 out of a total of 284 certified appraisers were issued certifications based on stale examination results. Those appraisers have been scheduled to retake the appropriate certification examination. You also noted that, should any of the credential holders fail to pass the examination, disciplinary proceedings will be initiated.

We understand that these fifteen appraisers have not yet taken the appropriate certification examination. Those appraisers have until November 1, 2006, to take and pass the examination. If they do not pass the examination, you need to take the necessary steps to downgrade to the trainee level any certified appraiser who fails to take or pass the appropriate examination within the 90-day period. Alternatively, the Board could recall existing certifications and conspicuously overstamp them with wording similar to "Not eligible to appraise federally related transactions." In this case, the appraiser's status on the National Registry would be changed from "Active" to "Inactive."

Please inform us about the status of these 15 appraisers by November 6, 2006. This will enable us to make appropriate changes in the National Registry to accurately reflect whether one or more of these appraisers cannot legally perform appraisals in connection with federally related transactions.

Our field review letter, your response, and any other previous correspondence between us regarding the field review now will become publicly available on our Web site.

Please contact us if you have any questions.

Sincerely,

Ben Henson
Executive Director

cc: Julius C. Willie, Executive Director